

Report of the Auditor-General to the Gauteng Provincial Legislature and the Council on Midvaal Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Midvaal Local Municipality set out on pages 365 to 430, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and appropriation statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Midvaal Local Municipality as at 30 June 2015, and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DORA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 39 to the financial statements, the municipality is the defendant in various court cases. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered in the financial statements of Midvaal Local Municipality during the year ended 30 June 2015.

Material losses

10. As disclosed in note 52 to the financial statements, material losses amounting to R21 417 623 (2013-14: R21 001 576) were incurred as a result of electricity distribution losses which represent 11.53% (2013-14: 12.32%) of total electricity purchased.

Material impairments

11. As disclosed in note 3 to the financial statements, material impairments to the amount of R88 074 237 (2013-14: R66 079 466) were incurred on consumer debtors of R195 136 183 (2013-14: R168 850 245) as these debtors were considered doubtful. This represents 45.13% (2013-14: 39.13 %) of total consumer debtors. The contribution to the provision for debt impairment for the current year under review was R21 994 771 (2013-14: R23 500 868).

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedule

13. The supplementary information set out on page 431 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

14. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to the reported performance information against predetermined objectives for selected objective presented in the annual performance report, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Objective 6: Physical Infrastructure and Energy Efficiency on pages 298 to 303.
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify material findings on the usefulness and reliability of the reported performance information for the following objective:
- Objective 6: Physical Infrastructure and Energy Efficiency.

Additional matter

21. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objective, I draw attention to the following matter:

Achievement of planned targets

22. Refer to the annual performance report on pages 249 to 358 for information on the achievement of planned targets for the year.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

24. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Auditor – General L

Johannesburg

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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